BOOK REVIEWS.

Wages and Capital. An Examination of the Wages Fund Doctrine. By F. W. TAUSSIG. New York: D. Appleton and Co., 1896, 8vo. pp. xviii + 329.

THAT an economist of Professor Taussig's standing should think it worth while to make a serious attempt to examine critically and to restate the wages-fund doctrine at this time is a significent fact. The weight of his influence in the opposite scale ought to show President Walker and his followers that if the doctrine was ever as dead as they have maintained, then there has been a resurrection and that it is advisable to ponder the words of this keen and sympathetic interpreter of the classic economists.

If what Thornton, Longe, and Walker understood as the wages-fund doctrine, is no longer worth discussion, will they claim that the same is true of the doctrine as interpreted by its latest exponent. Can President Walker answer the criticisms brought against his theory that wages are paid out of products and that the laborers are the residual claimants?

Professor Taussig has divided his work into two parts. In the first part, consisting of five chapters, he clearly sets forth his own views on the subject; the second and more extended part is a critical examination of the historical development and treatment of the wages-fund idea. This departure from the ordinary method of arrangement is to be commended. The gain to be realized by approaching the writer's own views after a study of the literature of the past is not likely to be equal to that which comes from a clear grasp of the principles and the point of view of the man who is to act as our guide in the critical and historical part of the work. Another word of strong commendation should be given for the pains that have been taken to make every point perfectly clear. The author has not hesitated to repeat the points of most importance, although he recognizes the danger of being thought prolix or pedagogic. The clear summaries of each subject and of each chapter, with the general summaries and conclusions at the end of each part, leave no excuse for misunderstanding.

From these general remarks let us turn to a more detailed examination of the work. The first chapter describes at some length the present industrial organization, shows the contemporaneous and successive divisions of labor, emphasizes the time element, and the fact that "the work of today is applied preponderantly to inchoate wealth, to preparatory stages in production; and the output of today consists mainly of goods not yet in enjoyable form" (p. 14). The real wages of today are the food, clothing, shelter, and consumable commodities ready for immediate use. The answer to the question, "Are wages paid out of the products?" is then perfectly clear. "But wages are certainly not paid from the product of present labor. Present labor produces chiefly unfinished things; but the reward of present labor is finished things. Real wages are, virtually to their full extent, the product of past labor" (p. 17). The clear thinker will not allow the use of money or any other confusing conditions to blind him to the simple fact here stated. Chapter two begins with a discussion of definitions of capital. The old idea that capital is that which supports and remunerates labor is abandoned, and the term capital is "to stand simply for inchoate wealth; for all possessions that do not yet serve human wants" (p. 36). This definition is certainly simpler and more easily applicable than the old ones, particularly Mill's definition which made the distinction between capital and not capital lie in the intention of the owner. It also has the advantage of being in line with the ideas of present-day writers. If anyone chooses to use the term capital to mean money funds accumulated before the work began, and product as money payment for partially finished commodities sold, it is not denied that he can have money wages paid, not out of capital in this sense, but out of product. The author, however, insists that "in whatever sense we use the term capital, it will still appear that current wages, considered with reference to any but a very short period of time, are derived in the main from capital" (p. 37).

But real income, real wages, and real capital are the essential things. Increased money payments will not avail, unless a larger supply of enjoyable goods can be put on the market, and the supply of such goods is largely determined by causes which have already done their work. In this dependence upon the past, however, the laborer finds himself in precisely the same position as the landlord, the capitalist, and the entrepreneur. This is a fact which the earlier writers had never noted, but one which Professor Taussig repeatedly emphasizes.

After this statement of the essential facts in the industrial world, a detailed study of the machinery of distribution is made in chapter three. With division of labor carried to its extreme limits so that no one produces for his own consumption, money and money income play the vital part, for real income is secured only by expenditure of money. The money income of society comes first into the hands of entrepreneurs. As a class they can use it as they please. Here is the opportunity for the will of the capitalist to determine whether a given money income shall be capital or not capital. The maintenance of capital depends upon their intention but they are rather closely limited in their expenditures by the quality of real income at hand and ready for consumption. In his discussion of the differences existing between independent workmen and hired laborers, the author gives a most explicit answer to the long disputed questions: Do wages depend upon capital ? and, Is the laborer paid out of a wages-fund ?

> The hired laborer is undoubtedly dependent upon capital, and gets his wages from capital in a sense in which the independent workman does not. His money income, the first and essential means toward getting a real income, is turned over to him by capitalists. It comes from funds in the possession of a body of which his immediate employer is a member, and which includes all the active coöperators in the management and control of industry. Except in so far as he has made a contract covering some length of time, his wages depend recurrently on their disposition to use for productive operations their inflowing money receipts. In this sense his earnings depend on a wages-fund, on the sums which the employers judge it expedient to turn to the hire of labor; and in this sense the independent workmen evidently do not depend on capitalists or on a wages-fund (p. 75).

Having shown the nature of the fund and the laborer's dependence upon it, the question of its elasticity is treated in chapter four.

1. Are the money funds which employers can turn over to laborers limited and determined by previous events, so that a given sum and no more must go to them ? Here the answer is a decided negative for the individual employer, or for the employing class. It is easy to accept this answer in the case of the individual employer ; he often has a wide margin which can be indefinitely extended by borrowing. But a little more light in the way in which the total money funds can be increased would be desirable. The author says that a universal strike might secure greater money wages for all labors, the increase to come from an extension of a bank credit, or a reduction of net profits. On

the same page he has stated the quantity theory in a way which precludes any gain to laborers if the increase comes by extending credit. Nor does he show any reason for thinking profits could be reduced without checking accumulation. We are told (p. 97) that the managing capitalists are much the most important class of savers, that they have large profits from which accumulations are made, and if they invest from habit, or for the sake of increasing business, perhaps a universal strike could transfer a large share of their funds to the laborers, but the author offers no satisfactory explanation of the way in which this result would be accomplished. Even if an increased amount of money could be obtained by laborers now, what would be the effect at the next investment period ? This is the important point, and all the help we get on it is the hint that the minimum which capitalists would accept rather than quit business is lower than is generally thought. While we could not rightly expect a full discussion of the problems of interest and profits in a work limited to an explanation of the machinery of distribution, a clear and definite statement on these points ought to be given by an author who is going to deny, as Professor Taussig does, that any result can be traced to the working of a force which may lower profits or interest.

Turning from questions of money income to real income, the limits are found to be much less elastic in the case of the latter. It is easier to extend credit than to increase the amount of consumable commodities ready for enjoyment. But as has been shown before, this limit is set to all income, not to that of the laborer alone. There is no marked distinction between laborer's commodities and capitalist's commodities which makes it impossible for the laborer to secure more than a fixed amount.

The author's own summary tells us (p. 101), "The conclusions of the economist as to the theoretical relations of wages and capital have little or no bearing on the disputes between laborers and capitalists as they usually appear in the specific case." The old idea of a fixed fund from which if one set of laborers get more, other must get less, may have some theoretical truth :

But it is safe to say that in concrete life it happens very rarely, probably never, that a specific rise in wages, secured by strike or trades-union pressure or simple agreement can be shown to bring any offsetting loss in the wages of those not directly concerned (p. 103). . . . . Doubtless, if all the consequences of the change could be infallibly traced, some justification for the misgivings of the writers of the older school might be found (page 104).

Is it safe to say we may disregard a force because we cannot trace its workings?

President Walker's idea of a residual share which must go to laborers receives no support from Professor Taussig. The active capitalists, from the nature of their position receive a primary income and own what is left after all expenses are paid. If they are prosperous and secure larger money incomes, the laborers may, in time, get higher wages, but are at no time in the position of residuary lega, tees. Wages have risen because the increased production of goods-even when sold at lower prices left the managers of industry with larger gross money incomes, a part of which they pay out in wages. The pessimists who maintain that all the gains from improvements go to the capitalists, and the optimists who maintain that all the benefit goes to the masses, are both warned that,

> The facts of the situation, so far as they can be made out, would seem to warrant no large generalizations as to the absorption of the whole gain by one class in society or another, and so confirm neither an optimistic nor a pessimistic view as to any residual shares. All hands have gained, and the proximate cause of the gain for all has been in the general and continued increase of the gross revenues which first flow into the hands of capitalistic employers (p. 120).

Here, certainly, is a pratical conclusion of importance. If the study of the economist does not enable him to settle labor disputes, it prepares him to warn contending classes that they are both somewhat astray, that, after all, the existing system is reasonably satisfactory, that if employers are only allowed to thrive, their prosperity will benefit all, while if they are injured all will suffer.

The classic economists used the wages-fund doctrine chiefly to impress upon the laborers the necessity of exercising what Malthus calls "the preventive check." Mill accepted this position without particular attention to the doctrine itself, and because of his great interest in social questions was ready to yield easily to the attacks of Lange and Thornton. Space will not permit an extended notice of the critical study of the development of the wages-fund doctrine from the time of Adam Smith until the present. Suffice it to say that nowhere else can so careful, intelligent and sympathetic a history of the doctrine be found.

WILLIAM HILL.